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Internal audit activities in 2000

Summary

The present report from the Office of Internal Audit (OIA) is the fourth annual report to the Executive Board. It presents a synthetic and analytical consideration of the findings of OIA based on the audits completed in 2000, in line with a proposal made by the Executive Director to the Executive Board at its third regular session of 1997.

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Contents

		Paragraphs	*Page*
I.	Summary	1–2	3
II.	Accountability, strategy and resources of the Office of Internal Audit	3–14	3
	A. Accountabilities and oversight	3–4	3
	B. Audit strategy and approach in 2000	5–12	3
	C. Resources	13–14	4
III.	Results of work undertaken in 2000	15–48	5
	A. Audit coverage	15–18	5
	B. Field offices	19–42	5
	C. Headquarters and regional locations	43–45	9
	D. Investigation support	46–48	9
IV.	Strengthening internal controls in UNICEF	49–50	10
	A. Support to control self-assessment	49	10
	B. Consultancy advice to Supply Division for vaccine procurement	50	10
V.	Implementation of the recommendations of the Office of Internal Audit	51–53	10
VI.	Standards of internal control in UNICEF	54–55	11

I. Summary

1. Field locations continue to be the priority focus of the audit effort of the Office of Internal Audit (OIA), and 34 offices were covered in 2000. Overall control in most locations was found to be satisfactory. Seven audits of headquarters/global issues were undertaken. An analysis of bank reconciliation practices in field offices resulted in a number of recommendations that were accepted by management.

2. OIA continued to advance the development of audit methodologies and reporting in 2000. Detailed guidelines for the audit of programme management issues were developed and tested, and this has become a standard feature in field audits from January 2001. To promote the self-assessment capacity of UNICEF, OIA transformed its audit guidelines into tools for use by field offices and circulated the materials to all offices. The OIA audit report format was assessed by auditees and senior management, and redesigned to strengthen the communication of identified risks and recommendations.

II. Accountability, strategy and resources of the Office of Internal Audit

A. Accountabilities and oversight

3. OIA fulfilled its accountabilities (defined in E/ICEF/1997/AB/L.12) in 2000 through the implementation of a management plan that defined internal improvement priorities and an audit plan that defined priority locations and issues to be audited during the year. The audit plan was reviewed by the Audit Committee at the outset of the year and at each meeting of the Committee through the year.

4. The United Nations Board of Auditors included OIA in its assessment of UNICEF headquarters functions in 1999 and made recommendations which included strengthening the review of work papers associated with completed audits and the monitoring of audit recommendations. UNICEF concurred with the recommendations in their report to the first regular session of the Executive Board in 2001, and initiated actions in 2000 to address them.

B. Audit strategy and approach in 2000

5. In recognition of the field-based structure of UNICEF, the majority of OIA audit efforts are directed towards the assessment of risks and controls at field offices. In the selection of audit locations for 2000, particular attention was paid to ensuring coverage of field offices that had not been visited for more than four years. These offices are generally small in budget and staff size, and 15 of the 34 audited offices were selected primarily on these criteria in 2000.

6. To expand coverage to these offices, OIA elected to audit only 6 of the 10 largest field offices during 2000. The four large offices that were not reviewed in 2000 had positive audit reports in 1999 and had demonstrated quick and positive responses to the recommendations made that year.

7. OIA continued to expand the range of technical guidance for auditing at field offices. New guidelines were developed for the audit of cash assistance, financial controls, programme management and security procedures for offices in emergency situations.

8. OIA made a significant advance in the capacity to review data based on the Programme Manager System (ProMS) at field offices in 2000 through the application of specialized audit software. Over 45 standard data-query routines were developed in association with the audit guidelines to support the auditors in quickly and easily reviewing the multi-year database of an office's transactions and identifying specific cases that warrant more in-depth review.

9. The report format for field audits was restructured following a review of the revised standards of the Institute of Internal Auditors and an assessment of auditee and senior management views on the effectiveness of OIA reporting. The revised format strengthens the transparency of the control ratings and the presentation of audit findings to clearly describe the risks posed by the identified conditions.

10. The new audit guidelines and reporting format are a further advancement in the assessment of risks and controls related to UNICEF organizational priorities, in addition to the more traditional areas of financial management and administration. This value-added approach is fully consistent with the latest standards of the Institute of Internal Auditors.

11. OIA continues to support the development of field office capacity for control self-assessment. In 2000, five audit guidelines were revised into tools that can be used by field offices to review their controls over major work processes.

12. OIA again issued a digest of the effective and weak control practices identified during the field audits of the previous 12 months. The "Good Practices" report, which was released in three languages, featured guidance on the segregation of duties, which was found to be a control weakness in some UNICEF field offices. The "Good Practices" report has received positive recognition within the United Nations. The Office of Internal Oversight Services profiled the annual digest in its quarterly newsletter that is circulated throughout the Secretariat.

C. Resources

13. OIA was affected by three extended post vacancies in the latter half of the year. To address the perennial problem of staff turnover, the Office now has a strategy to minimize vacancy periods by having up-to-date descriptions of post requirements and strengthened awareness of potential sources of qualified applicants.

14. In 2000, OIA continued to advance the development of audit skills through group training in fraud-awareness techniques, the utilization of audit software to review ProMS-based data, and guidelines for the auditing of supply assistance. Individual staff participated in external training activities to strengthen skills in risk assessment.

III. Results of work undertaken in 2000

A. Audit coverage

15. In 2000, OIA again exceeded the annual coverage target of 30 per cent of all field offices by completing 34 field audits. This coverage is down somewhat from the previous year due to staff vacancies. The 34 offices accounted for 40 per cent of total UNICEF expenditures through field offices. The following table presents a quantitative view of OIA activities for the year, with comparative figures from 1999.

Macro-performance indicators, 2000

	1999	*2000*
Total audits	44	41
Field offices	38	34
Recommendations issued	1 942	2 095

16. Draft audit reports were issued and discussed with the auditees before departure from the location in almost all audits in 2000. This approach secured virtually 100 per cent acceptance of the audit recommendations. However, there was a slip in the timely release of final reports from the previous year; only 10 of the year's 41 reports were issued in the first seven months of the year. The revised reporting format and new approaches to report finalization are strengthening timeliness in 2001.

17. In 2000, more than 80 per cent of the audited field offices accepted the OIA offer to develop an action plan on how the office will address the audit recommendations. The action plans are included in the final audit reports to demonstrate the auditee's commitment to addressing the audit recommendations.

18. Follow-up audits were completed in two locations approximately six months after the initial audits identified important risks. The scheduling and implementation of the follow-ups stimulated management to quickly address the priority recommendations, and provided timely review to assess the adequacy of their actions. Staff vacancies precluded implementation of all six follow-up audits for 2000 pledged in the annual report for 1999 (E/ICEF/2000/AB/L.7).

B. Field offices

Programme management

19. Coverage of programme issues was reduced in 2000 as OIA redirected its strategy from specialized programme audits towards an approach that regularly reviews basic programme management controls, including attention to programme monitoring and evaluation, during each field audit. Developed in 2000 and launched in January 2001, this approach will provide coverage of more than 30 field offices per year, which will significantly strengthen OIA capacity to profile the general state of key programme management issues at field offices.

20. A number of offices were challenged in the transition to the ProMS-based annual project plans of action (PPAs) in 2000. Several audits found that the offices' PPAs did not include the level of detail in defining the inputs necessary to implement planned activities. Some audits also found that offices were developing paper-based PPAs and maintaining parallel, but not identical, PPAs in ProMS. Recommendations were made to individual offices to strengthen their use of the ProMS-based planning tools.

Input management

21. OIA continued to devote the majority of its efforts in most locations to the assessment of the efficiency and effectiveness of the means through which UNICEF offices plan, commit, procure and expend financial resources. Each field audit began with an assessment of the general controls over each of the offices' major input types, and then selected the most important for in-depth review.

Cash assistance

22. Cash assistance was reviewed in 26 field audits, and controls were found to be satisfactory in the majority of audited offices. Very few offices were found to have high levels of unliquidated cash assistance, and it is the opinion of OIA that overall, UNICEF had adequate control over the level of unliquidated cash assistance in 2000. Management is monitoring the cash assistance to Government (CAG) position at field offices and issues timely notices to those offices that exhibit high levels of outstanding liquidations through the year.

23. With levels of cash assistance generally in check, audits are focusing on the use of CAG, and the quality of the planning and liquidation statements for this form of support.

24. A common finding among offices with unsatisfactory controls over CAG was limited awareness of the accounting and auditing practices of Governments and other counterparts. Not surprisingly, late and inadequate liquidation statements were often found to be associated with weak counterpart administrative capacity. In some locations, recommendations were made to implement CAG orientation sessions with counterparts. In other offices, recommendations were made to strengthen their awareness of counterparts' administrative capacity, particularly before beginning support to new counterparts, and to consider administrative capacity-building support within the context of their programme of cooperation.

25. Some audits also found that a number of offices should enhance the quality of their controls over the liquidation process to ensure that statements of expenditure are accurately presented and that there is a clear relationship between the planned activities and the actual utilization of funds. Several audits found that quality shortcomings were related to counterparts' limited understanding of UNICEF procedures and expectations. In other offices, the issues were more related to UNICEF staff performance in the review of liquidation statements.

26. Some audits reviewed the actions taken by offices to evaluate the effectiveness of CAG within the programme of cooperation. In the limited number of offices reviewed, this was generally found to be an area that is not systematically assessed. This issue is being reviewed in increased numbers of field audits in 2001.

Supply assistance

27. Supply assistance was reviewed in 14 field locations where it was a significant component of the programme of cooperation. The management practices in the majority of offices were found to be satisfactory.

28. A number of audits noted the need to more positively involve the supply personnel in programme planning to enhance specification development and delivery scheduling. The existence of country management teams and increased attention to combined programme/operations staff training has advanced internal cooperation in this area; however, it remains an area for improvement in some offices.

29. While supply procurement processes were found to be satisfactory in almost all locations, it was noted that defining supply requirements earlier in the year could further advance effectiveness. In some offices, supply ordering has been disproportionately concentrated in the last quarter of the year. This practice creates administrative bottlenecks and affects programme implementation.

30. The audits in 2000 found uneven practices between offices in the development of supply specifications. While a number of offices had positive practices, others demonstrated weak capacity in this area. Recommendations were issued to some offices to variously strengthen specification development capacity in UNICEF and, in some instances, among counterparts which make requests to UNICEF for supply assistance.

31. A number of audits highlighted the need for field offices to strengthen their awareness of local market conditions and assess potential suppliers of frequently procured items to ensure that UNICEF secured the most economic and effective supply inputs from locally-based suppliers. Recognizing the need to strengthen general capacity in this area, management is working on the development of guidance for field offices in local procurement practices, including market assessment.

Contracts for services

32. Consultancy contract management was reviewed in all 30 audits in 2000. In the majority of locations, performance was found to be satisfactory; however, 10 offices were unsatisfactory due to one or more important control weaknesses. While these weaknesses did not lead to any identified loss, recommendations were issued to strengthen compliance with UNICEF procedures.

33. In 2000, OIA carefully reviewed the clarity of the tasks defined in consultants' terms of reference to ensure that performance expectations were adequately defined. While most offices demonstrated adequate practices, the frequency of weak terms of reference was high enough to warrant improved global guidance in this area. Several audits also recommended that offices establish clear local fee rates and more clearly demonstrate how local consultancy fees were determined.

34. The audits also reviewed how consultants are supervised and evaluated. In most offices, the practices were found to be satisfactory; however, end-of-contract performance evaluations in a number of offices did not clearly assess performance against the defined tasks. Recommendations were issued to strengthen evaluation practices to ensure that full value was secured from the consultancy and to

strengthen UNICEF capacity to assess consultants' suitability for future assignments.

Fund-raising and donor reporting

35. The use of and reporting on other resource funding was reviewed in nine field offices with significant donor support in 2000. Again, the majority of reviewed offices were found to have satisfactory practices. In all but one location it was found that field offices had maintained awareness of the conditions specified in the donor agreements and had used all funds for the purposes stated in the agreement.

36. One office was found to have used funds from one contribution for programme inputs that were different from those defined with the donor. An analysis of the issues related to this instance found that high staff turnover in an emergency environment for a multi-year contribution had contributed significantly to the breakdown in compliance to the agreement. The incident was an important lesson for the office and has provided a cautionary profile to management for strengthening systems to maintain long-term awareness of the content of donor agreements.

37. Several audits noted the challenges faced by offices in fully committing donor funds with very short utilization deadlines. In some instances, offices were allowed only a few months to place orders and secure deliveries for programme inputs before the expiration date of the contribution. OIA notes that a minimum expiry date of one year from the receipt of funds by UNICEF from donors has now been established.

38. Compliance to donor reporting obligations was found to be satisfactory in most offices. A common finding among those offices that did show deficiencies in the timeliness and quality of reporting was the unclear assignment of specific responsibilities for report preparation among staff and weak monitoring of reporting obligations by office management. Not surprisingly, these conditions were most common in emergency locations, which typically have high staff turnover and a high number of reporting obligations.

Finance and accounts

39. All field audits reviewed the functioning of financial controls in 2000. Most offices had satisfactory controls; however, eight offices were found to have one or more significant risks to sound financial management. These shortcomings were addressed through recommendations for action by the field office and, as with all audits, were reported to the Executive Director, Comptroller and other members of senior management.

40. A common underlying factor for inadequate financial control in some offices was limited knowledge of financial and accounting procedures among programme and, in some locations, operations staff. This lack of exposure to finance issues resulted in several observations related to the acceptance of insecure documentation, such as photocopies of delivery notes and invoices. While no more than very minor losses were identified in relation to these practices, OIA is concerned that the lack of recognition of the risks in these practices indicates a weak understanding of financial controls. Recommendations were made in individual audit reports to strengthen knowledge and controls at specific locations, and management has accepted a recommendation to expand the training of senior field office staff in key aspects of financial control.

41. It was found that a few offices were not following the correct procedure for obligating funds at year-end to settle commitments that would be paid in the subsequent year. Recommendations were issued to ensure that field office expenditures were recorded and reported in the correct year.

42. In locations with weak or non-existent banking services, field offices are often compelled to conduct local operations on a cash basis. Audits at such locations reviewed cash management practices carefully. Overall, they were found to be adequate in even the most difficult environments, although recommendations were issued in some locations to further strengthen controls to minimize the risk of loss.

C. Headquarters and regional locations

Consolidated Supply Section — Nairobi Regional Office

43. The audit assessed the fulfilment of the Consolidated Supply Section's (CSS) responsibilities for supply procurement for the four Nairobi-based UNICEF offices. The audit found that improvements could be made to strengthen efficiency and effectiveness. The underlying challenge was the complexity of maintaining effective communication between CSS and its client offices. There was room for improvement in the quality of supply planning and specification development by the client offices, and it was recommended that CSS use its expertise to develop that capacity among its clients. It was also recommended that CSS increase its awareness of local market conditions and potential suppliers of commonly procured items.

The oversight of National Committees

44. An audit of UNICEF oversight responsibilities for National Committees identified some ambiguities within UNICEF on its specific roles and responsibilities in this area. OIA notes that management is addressing this issue through efforts in 2000 and 2001 to refine accountabilities and strengthen coordination between the Private Sector Division and the regional Office for Europe.

Rental subsidy scheme for international staff

45. OIA reviewed the effectiveness of headquarters functions in the implementation of the United Nations rental subsidy entitlement for international staff within UNICEF. Administration of the rental subsidy programme requires the involvement of field offices, UNICEF headquarters and the United Nations Secretariat, which inputs and maintains records related to rental subsidy payments. The audit made recommendations to strengthen the process for assessing the correctness of requests for subsidy payments and to improve the content and frequency of management reports.

D. Investigation support

46. In 1999, OIA introduced a requirement for heads of offices to issue a Representation Letter before the start of an audit to report on any actual or suspected acts of wrongdoing that have occurred in the office since the time of the previous audit, and to state the actions they have taken to address the issues. These letters have been influential in reinforcing field office management responsibility for

maintaining awareness of control conditions and acting on identified problems. In 2000, Representation Letters were completed by all but one field office (in one instance OIA failed to request the office for such a letter).

47. OIA advanced its management of investigation issues in 2000 to regularly include an assessment of the underlying control weaknesses that allowed an irregularity to occur or delayed its detection. This approach strengthens the contribution of OIA to improving overall controls within UNICEF.

48. In 2000, OIA analysed the record of four fraudulent activities that had been investigated in 1999-2000 and found that they could have been detected at an early stage by field office management had management known what to look for in the review of bank reconciliation statements. Management has responded positively to the audit recommendations to improve the quality of the bank reconciliation review in field offices by defining clear responsibilities for the verification of statements, and by strengthening staff skills, guidance, and ProMS facilities to perform more effective review.

IV. Strengthening internal controls in UNICEF

A. Support to control self-assessment

49. OIA is committed to advancing UNICEF capacity for self-assessment in internal controls. In 2000, five audit guidelines were transformed into self-assessment tools and distributed to all field offices. The guidelines describe what controls a well-managed office would be expected to have in place and provide suggestions on how to test the existence and functioning of each of those controls. A survey of field offices and feedback from recent audits indicate that the self-assessment guidelines were utilized in a number of locations.

B. Consultancy advice to Supply Division for vaccine procurement

50. In support of the Global Alliance for Vaccines and Immunization initiative, OIA worked with Supply Division to assess vaccine procurement issues in 2000. The study evaluated UNICEF vaccine procurement policies and procedures, and examined alternative procurement approaches through a review of a selection of industry practices. The interdivisional report made recommendations to further expand awareness of global vaccine production capacity and procurement mechanisms, and to improve the capacity to forecast global vaccine requirements. The review emphasized the need to ensure full transparency in the development of alliances with commercial laboratories for vaccine production, pricing and storage.

V. Implementation of the recommendations of the Office of Internal Audit

51. Again in 2000, virtually all recommendations were accepted by management at field and headquarters levels, and they demonstrated a very good record of timely responses to audit recommendations. Management formally responded to 95 per cent of OIA recommendations on time or within one month of the deadline in 2000. In

most, but not all cases, the reports demonstrated that sufficient action had been taken to address the issues in question.

52. As pledged in the 1999 annual report, OIA strengthened the general quality of its audit recommendations in 2000. This was accomplished through a review of past recommendations and an assessment of auditee suggestions. New standards and a training programme were developed to orient staff to state "SMART" (specific, measurable, achievable, realistic and time-bound) recommendations. This approach greatly facilitates auditees' comprehension of recommendations, advances the potential that they will be implemented and assists OIA to determine the adequacy of reported actions to implement the recommendations.

53. In 2000, OIA advanced its capacity to monitor the thousands of audit recommendations it has issued in recent years through the introduction of a new audit management software package that facilitates all aspects of audit management — from planning to implementation and reporting. The full benefits of the new software will be realized in 2001 when it will be used to monitor the audit recommendations from the previous year.

VI. Standards of internal control in UNICEF

54. OIA found that overall control in audited field offices was satisfactory in 2000. However, five offices were considered unsatisfactory in all audited areas. Office utilization of ProMS was found to have advanced over the previous year. Improvements are still needed in the use of ProMS annual project plan development facilities, and management has taken actions — including modifications to the UNICEF programme training package — to strengthen field office use of these features.

55. The issues reviewed at headquarters and regional audits found controls to be generally adequate. Most of the identified control weaknesses were accepted by management, and actions are under way to address the issued recommendations.